University of California, Berkeley
Center for Labor Research and Education

Research Brief

6.3 MILLION PRIVATE SECTOR WORKERS IN CALIFORNIA LACK ACCESS TO A RETIREMENT PLAN ON THE JOB

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HIGHLIGHTS

1. **Workplace retirement plan access in California's private sector is inadequate—and declining.**

   - Based on data from the three-year period 2008–2010, only 45 percent of private sector workers age 25–64 in California work for an employer who sponsored a retirement plan—even less than the US average of 53 percent.
   - Only 37 percent of employed private sector workers in California actually participate in an employer-sponsored retirement plan.
   - There has been a downward trend in workplace retirement plan coverage in California since 1998–2000, when 50 percent of private sector workers had access.
   - Access is worst among low-wage workers (22 percent in the bottom quartile); employees of small firms with less than 100 employees (25 percent); and Latinos (32 percent).

2. **Over six million working Californians have fallen into the private sector pension gap.**

   - 6.3 million private sector workers in California work for an employer that does not sponsor a retirement plan.
   - The median age in this group is 40 years; four out of five work full time.
   - The median annual earnings of workers who do not have access to a workplace retirement plan are just under $26,000—half that of workers who do have access.

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- Over two-thirds (68 percent) work for small firms with less than 100 employees; and almost one-fifth (18 percent) work for very large firms with 1,000 or more employees.
- A disproportionately large majority (64 percent) of workers without access to a workplace retirement plan are people of color, with Latinos making up the largest single share (46 percent) of the total.

3. Lacking adequate pension access, California private sector workers face serious economic hardship in retirement.

- The typical worker who lacks access to an employer-sponsored retirement plan will receive only 50 to 60 percent of the amount required to avoid serious economic hardship in old age from Social Security.
- An earlier study found that nearly half (47 percent) of California workers—public and private—are currently on track to retire with incomes below 200 percent of federal poverty level (i.e., about $22,000 a year), a widely accepted threshold for serious economic hardship.
- Each generation is projected to retire poorer than the last: 55 percent of young workers age 25–44 have projected retirement incomes below 200 percent of poverty level, compared to 39 percent of workers age 45–54 and 33 percent of workers age 55–64.

4. A publicly sponsored retirement savings program can close the pension gap and help workers build adequate and secure retirement income.

- Automatic enrollment (with employee-level opt out) and automatic payroll deduction, combined with portability across jobs, would help millions of workers save easily and consistently throughout their careers.
- A large plan in which professionals manage the pooled retirement savings of millions of workers can be more efficient and less costly compared to currently available IRAs and 401(k)s, and offer better insurance against investment risk—important factors for workers with modest incomes.
- With a large risk pool, the plan can offer attractively priced life annuities compared to the individual market and thus offer secure monthly income throughout a worker's retirement.

Introduction

A growing majority of Americans are worried about not having enough money for retirement.[1] Californians in particular face a serious retirement crisis that affects workers of all ages. Given the long-term decline in employer-sponsored retirement plans—especially defined-benefit plans—and comparatively low rates of sponsorship compared to the nation as a whole, most private sector workers in the state do not have access to this critical means for building retirement income security. This crisis disproportionately affects workers with modest earnings, small business employees, and workers of color, particularly Latinos. It threatens a large share of low- and middle-income households with serious economic hardship in old age. With each generation on track to retire poorer than the last, the resulting the strain on public services will undermine the long-term fiscal stability of the state.

The purpose of this research brief is to outline the magnitude and character of the retirement plan coverage gap in California's private sector and to analyze their implications for state policy aimed at improving retirement income security. This brief updates and expands on the pension coverage data featured in *Meeting California's Retirement Security Challenge*, published in October 2011 by the Labor Center.[2] Data are primarily drawn from an analysis of the Bureau of Labor Statistics' Current Population Survey (CPS) March Supplement.[3]

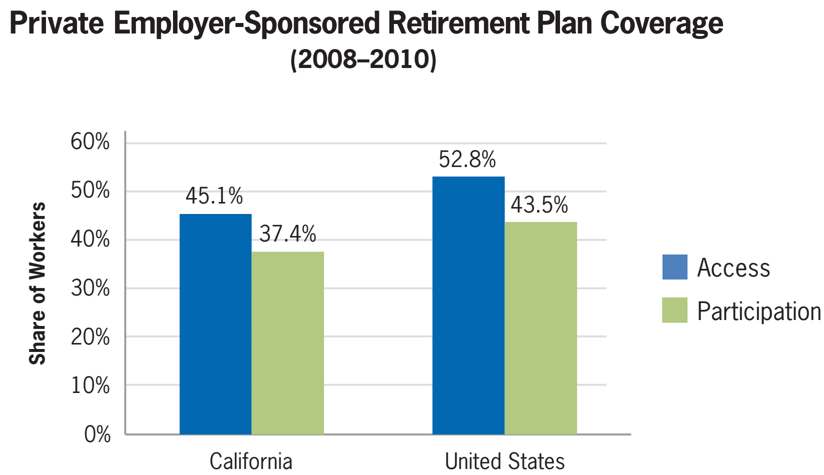
The first section highlights inadequate access to employer-sponsored retirement plans in California's private sector and identifies significant disparities by earnings, firm size, and race. The second section outlines the size and characteristics of the private sector working population lacking access to a retirement plan on the job. The third section illustrates why low rates of access are a problem for workers and the state, drawing on recent retirement income estimates for California workers. The fourth section discusses why a publicly-sponsored, professionally managed retirement plan designed to close the private sector pension gap is particularly suited to bolster retirement savings and address the efficiency, cost, and risk mitigation challenges inherent in serving a population comprised largely of low- to middle-wage workers.

1. Workplace retirement plan access in California's private sector is inadequate—and declining.

According to data from the U.S. Department of Labor's Current Population Survey for the three-year period 2008–2010, private sector workplace retirement plan access is even lower in California than in the US as a whole (**Figure 1**, page 4). The following data are for employed private sector workers, concerning retirement plan coverage through their primary employer. Only 45.1 percent of private sector workers age 25–64 in California work for an employer who sponsors a retirement plan, versus 52.8 percent in the US. Only 37.4 percent of private sector workers in California participate in an employer-sponsored retirement plan, compared to 43.5 percent in the US.

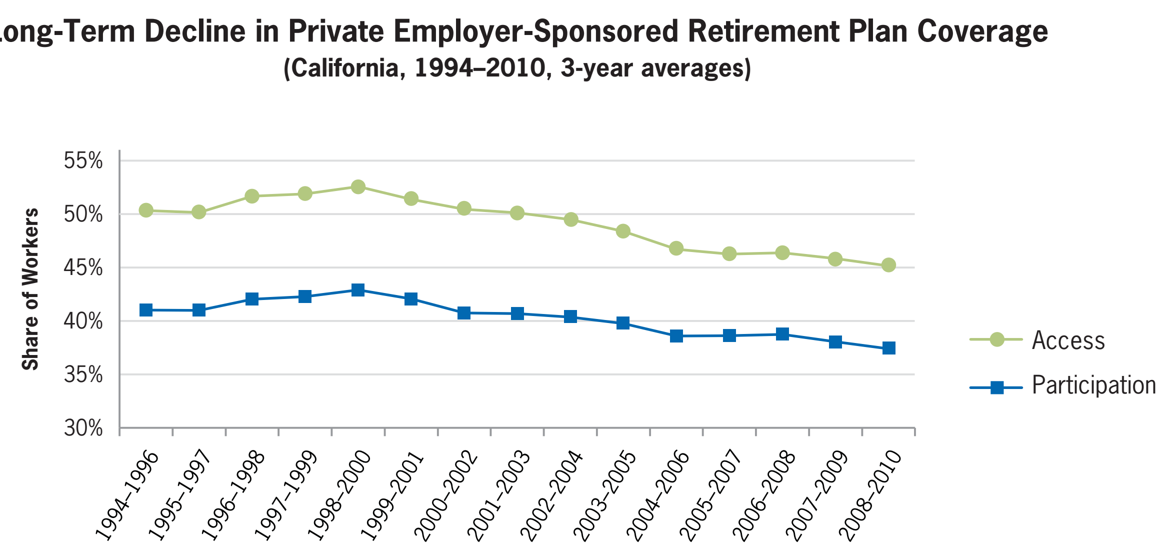
Like the US as a whole, California has seen a long-term decline in private sector employer-sponsored retirement plans since the late 1990s boom and subsequent bust in 2001 (**Figure 2,** page 4). As of the three-year period 1998–2000, 50.3 percent of private sector workers in California work for an employer who offers a retirement plan and 41.0 percent participated in a plan. Current rates of access and participation are 10 percent and 9 percent lower, respectively.

FIGURE 1



Source: Author's analysis of appended data from CPS March Supplement, 2009–2011. Data are from 2008–2010, and figures are three-year averages. Universe is private sector wage & salary and self-employed/incorporated workers, age 25–64.

FIGURE 2



Source: Author's analysis of CPS March Supplement, 1995–2011. Data are from 1994–2010, and figures are rolling three-year averages calculated from appended data. Universe is private sector wage & salary and self-employed/incorporated workers, age 25–64.

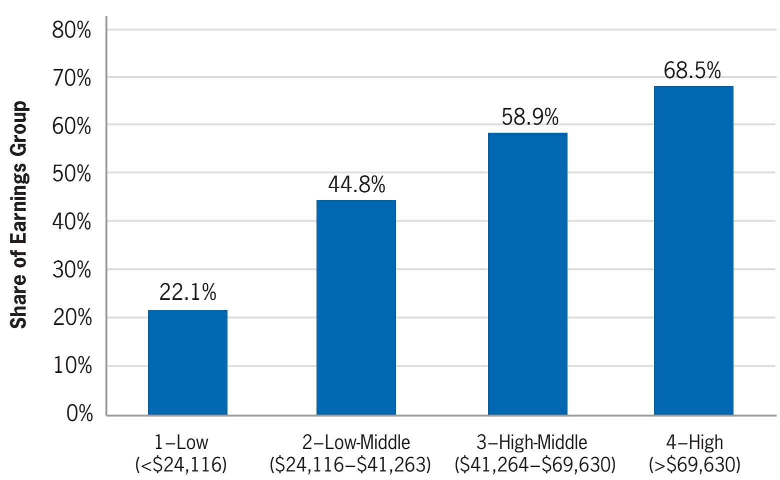
Not all retirement plans provide the same level of retirement income security. The CPS does not distinguish retirement plan type, but an earlier analysis of the Survey of Income and Program Participation (SIPP) found that two-thirds of California private sector workers who participated in a workplace retirement plan in 2009 had only a defined-contribution (DC) plan such as a 401(k) individual investment account, and one-third had a defined-benefit (DB) pension in which the employer guarantees monthly income in retirement.[4] The DB plan share would be even lower if frozen plans—in which workers do not accrue additional benefits—were excluded.

Several features of DC plans make them less secure than DB pensions. Employer contributions on behalf of employees in 401(k) type retirement accounts tend to be much lower than in DB plans.[5] In 401(k) plans, workers are generally responsible for voluntarily funding their own accounts, and the plan may or may not provide matching employer funding. Individuals in DC plans also bear all of the risks associated with saving enough and realizing sufficient returns in the context of volatile financial markets and uncertain life expectancy. Finally, DC plans like 401(k)s and SIMPLE IRAs often entail high fees that erode the returns on worker savings, significantly reducing retirement income. The fact that most workplace retirement plan participants are in a DC plan indicates that California private sector workers have even less retirement income security than overall access and participation statistics indicate.

Figure 3 shows marked disparity in workplace retirement plan access by earnings. Workers in the sample were ranked by earnings from lowest to highest and then grouped into quartiles, i.e., four equal size groups. The first quartile represents the bottom 25 percent of earners, while the fourth quartile represents the top 25 percent, and so forth. Among high-wage workers who make about $70,000 a year or more, represented in the top (fourth) quartile, 68.5 percent report working for an employer who offered a retirement plan. The high rate of access in this group reflects the fact that firms use enhanced benefits to attract skilled workers. However, the share plummets sharply in lower earnings groups, to just 22.1 percent of the low-wage workers in the bottom quartile, with earnings of about $24,000 a year or less.

FIGURE 3

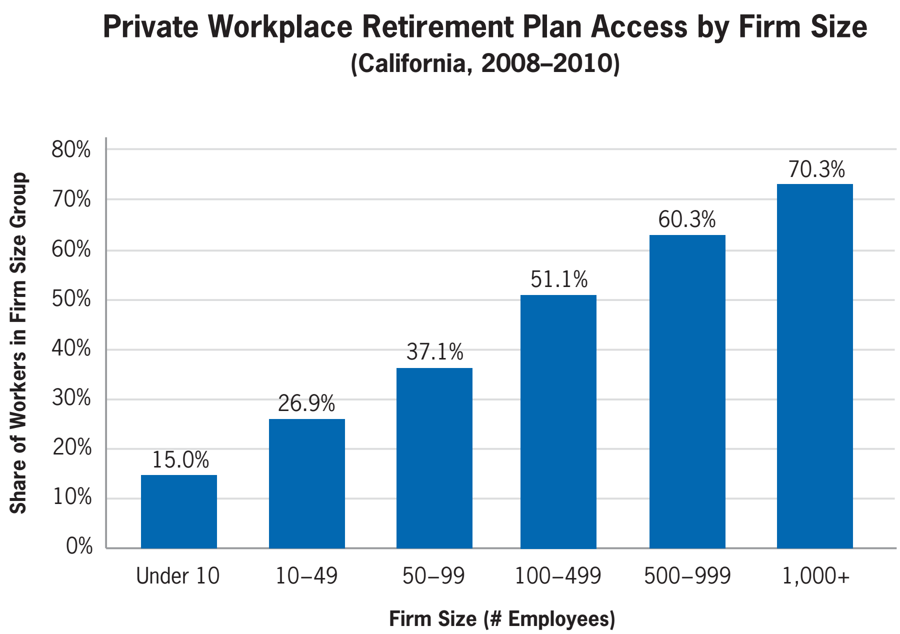
Private Workplace Retirement Plan Access by Earnings Quartile
(California, 2008–2010)



Source: Same as Figure 1.

Figure 4 illustrates even starker disparity by firm size. A large majority (70.3 percent) of workers in firms with 1,000 or more employees reported that their employer offered a retirement plan of some kind. This share declines steadily with firm size, to a minority (37.1 percent) of workers in firms with 50–99 employees, and a miniscule share (15.0 percent) of workers in firms with less than 10 employees. The average rate of access for workers in all firms with less than 100 employees is 24.8 percent.

FIGURE 4



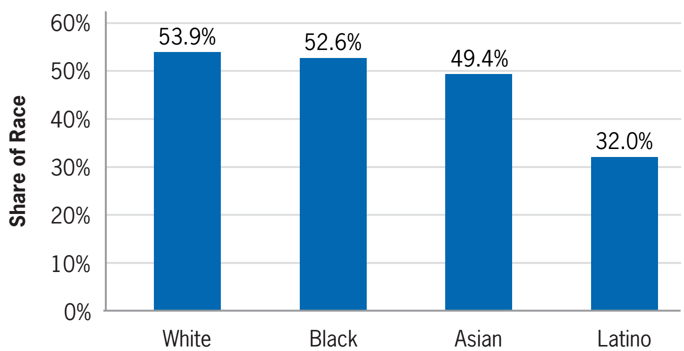
Source: Same as Figure 1.

One reason for the stark relationship between firm size and retirement plan access is that the relative cost of administering a retirement plan is significantly higher for small firms than for large firms. Large firms have HR departments dedicated to administering employee benefits, and can spread costs across many participants. They can also negotiate favorable terms with financial service providers. In contrast, the process of evaluating retirement products, learning the complex regulations governing employer-sponsored plans, and establishing a plan can be time-consuming and expensive for small business owners. The problem is that while these dynamics make sense from the perspective of an individual business, there are significant long-term repercussions to workers, society, and government if workers do not participate consistently in a workplace retirement plan throughout their working lives.

Retirement plan access in the private workplace is also marked by racial disparity (**Figure 5,** page 6). The rate is highest among Whites (53.9 percent), followed by Blacks (52.6 percent) and Asians (49.4 percent). Latinos have the lowest access to workplace retirement plans (32.0 percent), trailing far behind other groups. This is most likely due to the fact that they are disproportionately concentrated in low-wage sectors with low labor standards such as accommodations, food services, building services, and residential construction.

FIGURE 5

Private Workplace Retirement Access by Race
(California, 2008–2010)



Source: Same as Figure 1.

2. Over six million working Californians have fallen into the private sector pension gap.

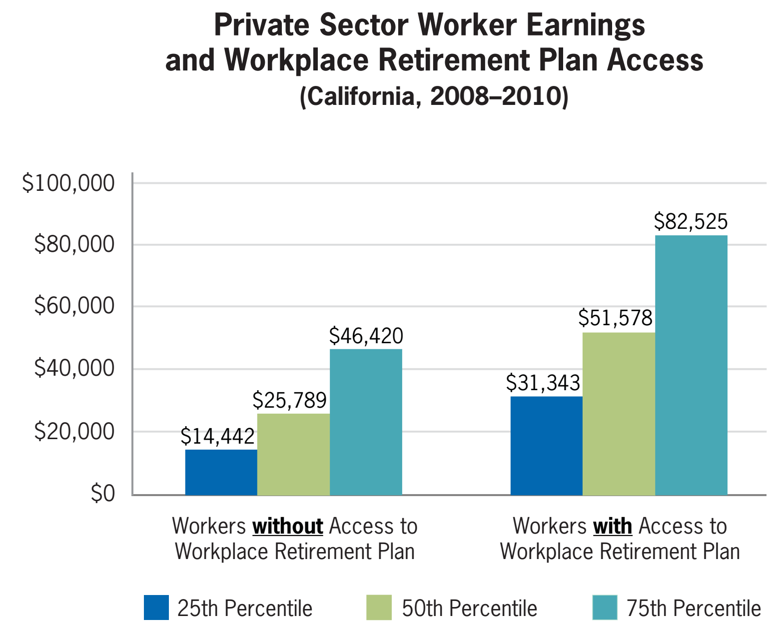
Currently, about 6.3 million private sector workers age 25–64 in California do not have access to a workplace retirement plan.[6] The vast majority (four out of five, or 5 million) work full time, and 91 percent of these workers (4.6 million) are confirmed to have worked for one employer during the reference year.[7]

This population is also comprised mostly by low-wage workers, with middle-wage workers making up a significant share. The median (50th percentile) annual earnings of workers whose primary employer does not offer a retirement plan is $25,789—half that of workers whose primary employer does offer a plan (**Figure 6,** page 8). Three-quarters of private sector full-time workers who lack access to an employer-sponsored retirement plan earn less than $46,420 a year (75th percentile).

Two-thirds (68.4 percent) of workers who lack access to an employer-sponsored retirement plan work for firms with less than 100 employees (**Figure 7,** page 8). At the same time, a significant share (17.9 percent) work for very large firms with 1,000 or more employees. The latter group is concentrated in retail, accommodations, and food services—sectors with low labor standards and a significant presence of national chains. These facts indicate that both a dearth of employer capacity on the part of small businesses and of employer responsibility on the part of some very large firms contribute to the magnitude of California's pension gap.

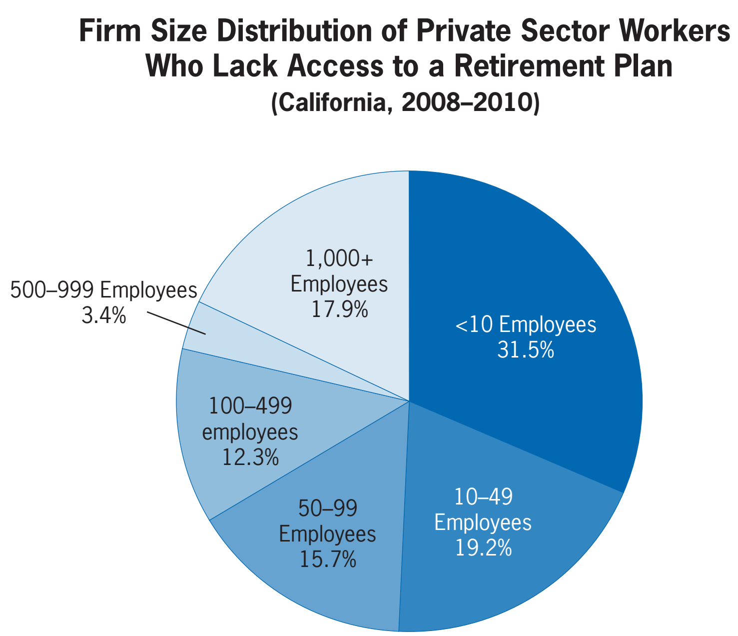
Finally, people of color are disproportionately represented among California private sector workers age 25–64 without access to an employer-sponsored retirement plan, accounting for 63.9 percent (**Figure 8,** page 9). Latinos make up the largest single group at 45.6 percent. In comparison, people of color represent 57.0 percent of the total sample and Latinos represent 36.8 percent. Latinos, with lower incomes, markedly low access to retirement benefits at work, and less access to Social Security benefits than the population as a whole, face particularly severe retirement insecurity.[8]

FIGURE 6



Source: Same as Figure 1.

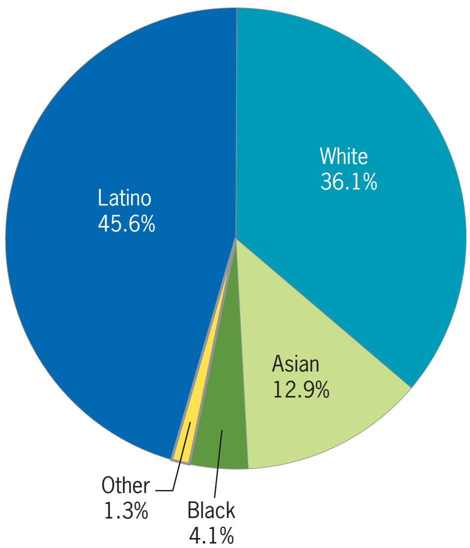
FIGURE 7



Source: Author's analysis of CPS March Supplement, 2009–2011. Universe is private sector wage & salary and self-employed/incorporated workers, age 25–64, who reported that their primary employer did not offer a retirement plan.

FIGURE 8

Race Distribution of Private Sector Workers Who Lack Access to a Retirement Plan
(California, 2008–2010)



Source: Same as Figure 7.

3. With inadequate pension access, California private sector workers face serious economic hardship in retirement.

What are the implications of inadequate retirement plan access in the private workplace for the future of California? In order to address this question, this section highlights the important role of workplace retirement plans as a supplement to Social Security and recent retirement income projections.

Social Security is critical, but not sufficient

Most workers, especially low- and middle-income workers, rely heavily on Social Security to provide a basic layer of retirement income. The program has been enormously successful in keeping most retirees above the federal poverty level. However, it does not provide sufficient benefits by itself to keep retirees out of economic hardship in high-cost states like California. A well-accepted alternative threshold of economic hardship for high-cost regions is 200 percent of the federal poverty level, or $22,340 a year for a single individual in 2012. A recent study of elder security found that California seniors, on average, require this level of income to pay for shelter, clothing, food, basic health care, and other essential needs.[9]

Assuming that Congress does not cut benefits, how much income will Social Security provide to today's workers when they retire? The typical worker who lacks access to a workplace retirement plan earns about $26,000 a year. Assuming that the worker is a single male age 40 with a consistent earnings history, and that he waits until the full Social Security retirement age of 67 to claim benefits, his annual Social Security income will be about $13,300 in today's dollars.[10] This is below 120 percent of the 2012 federal poverty level of $11,170 for a single individual and is far below the amount required to meet basic expenses like food, housing, and health care in California.[11]

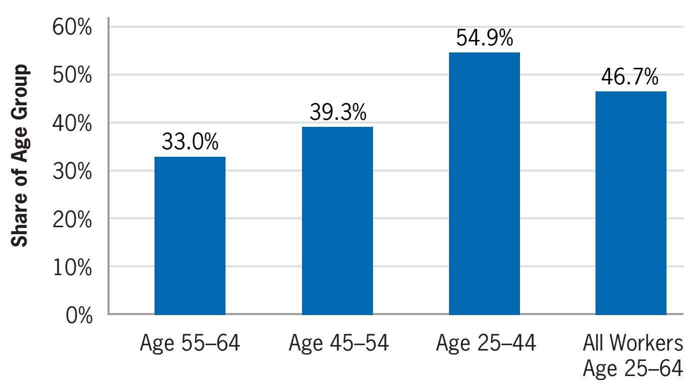
But low-income males who have not shared in life expectancy growth face a significant likelihood of having health issues that make it difficult to work until full retirement age.[12] Indeed, the median age for new Social Security awards in 2010 was 63, significantly shy of the full retirement age of 65.5 years.[13] Assuming that the worker continues to work a few more years than today's average, say until age 65, his annual Social Security benefits will be reduced to about $11,700 in today's dollars.[14]

A typical middle-wage worker age 40 who lacks access to an employer-sponsored plan, earning about $40,000 a year, will receive approximately $17,600 in annual Social Security benefits at age 67. This is still short of the near-poverty threshold of $22,340, and just 50 percent of the $36,000 (80 percent of pre-retirement income) required to maintain his standard of living.

Thus in order to meet basic expenses in old age, much less maintain their pre-retirement standard of living, workers need to accumulate additional assets. Affluent workers typically have a wide array of assets by the time they retire.[15] But for others, workplace retirement plans serve as the most important asset-building vehicle to supplement Social Security.

FIGURE 9

Share of Workers Projected to Retire In or Near Poverty by Age Group
(California, 2009)



Source: Projections based on SIPP 2008 panel data in Allegretto, Rhee, Saad-Lessler, and Schmitz, 2011, p. 34, Table 2.5. Universe is California residents age 25–64 who worked in the reference period, had positive earnings, were not unpaid family workers, and were civilian workers (i.e., not in the Armed Forces).

Almost half of California workers are projected to retire in or near poverty

Most workers do accumulate assets in addition to Social Security—but not enough. An earlier study released in 2011 by the Labor Center projected retirement income for current California workers, taking into account Social Security benefits, traditional pensions, retirement accounts, home equity, and other assets.[16] It found that nearly half (46.7 percent) of workers in the state are on track to have retirement incomes below 200 percent of the federal poverty level (**Figure 9,** page 10). Even more disconcerting, the share of workers projected to retire in or near poverty increases with younger age cohorts, so that each generation will retire poorer than the last: 54.9 percent of workers age 25–44 are on track retire in or near poverty, compared to 39.3 percent of workers age 45–54 and 33.0 percent of workers age 55–64. The study also found that 47.2 percent of workers in the middle 50 percent by income will retire in or near poverty. These projections include not just private sector workers but also public employees who tend to be older and more educated, and who see a greater share of their total compensation deferred until retirement, often through DB pensions. Retirement income prospects would be slightly worse if only the private sector were counted.

4. A publicly sponsored retirement savings program can close the pension gap and help workers build adequate and secure retirement income.

Without significant policy intervention to improve the retirement income security of private sector workers, California will face a serious elder poverty crisis in the coming decades. This will not only put retirees in serious hardship and increase financial demands on their families, it will also increase the need for subsidies and publicly-funded services, exerting strain on the state budget. Several proposals have been advanced at the state and national level to fill the private sector pension gap, ranging from auto-IRAs[17] and universal 401(k)s[18] to publicly-sponsored retirement plans.[19] Given unlikely prospects for significant federal action on this issue in the near future, policymakers and stakeholders are turning to states like California to provide leadership.

The need for public policy intervention is underscored by the fact that most workers who lack access to an employer-sponsored plan would not be best served by conventional individual investment accounts available through the private market. These are not structured to serve a population dominated by low-wage earners and small business employees in a way that is cost-efficient, much less provide a secure source of retirement income. Furthermore, unlike the high-paid executives for whom such plans were originally designed, workers with modest incomes are ill-equipped to absorb the significant risks inherent in conventional 401(k) type plans. These realities support a strong rationale for the creation of a publicly-sponsored retirement savings program to fill California's pension gap.

Most experts agree that retirement plans should be oriented at helping workers build ***adequate*** and ***secure*** retirement income, as opposed to building a lump sum—a focus that was lost in the transition from DB pensions to 401(k)s. With this in mind, the remainder of this paper will briefly outline the key advantages that can be conferred through a publicly-sponsored plan for workers of modest means.

Low fees and professional management through pooled accounts

A key challenge in designing a retirement savings system for workers who do not have access to an employer-sponsored plan is the prevalence of low-balance accounts. For instance a worker earning $26,000 a year, saving 3 percent of income, contributes $780 a year. It would take several years to accumulate a substantial balance at this rate, and only if the worker stays with the same provider. Administering millions of low-balance individually directed investment accounts is costly and would translate into high fees paid by workers.

Pooling individuals into one large market and having providers bid to service accounts can exert downward pressure on fees, to an extent.[20] Substantial additional cost savings can be achieved by pooling funds and having professional staff, rather than individuals, manage investments, thus eliminating the costs entailed by millions of small transactions.[21]

Easy saving through automatic enrollment and payroll deduction on the job

Automatic enrollment helps workers take responsibility for preparing for retirement, especially younger workers who typically delay thinking about it until it is too late to catch up. Even for firms that offer 401(k) type plans, experts recommend automatic enrollment with a default contribution rate that automatically escalates during workers' tenure in order to help them accumulate enough assets.[22]

At the same time, retirement security should be a shared responsibility and a state sponsored retirement plan should accept employer contributions on behalf of their workers. In order to offer such a feature, however, policymakers and stakeholders would need to address regulatory obstacles at the federal level.[23]

Payroll deduction provides workers an easy and attractive way to save, as evidenced by a recent Federal Reserve study on how low- and moderate-income households systematically over-withhold federal income taxes.[24] This behavior runs contrary to financial wisdom—they would be better off if they put the money into an interest-bearing bank account, rather than giving an interest-free loan to the government. But workers find it much easier to save when it happens automatically through their payroll and they never see the sum in their checking account.

Real portability

A publicly-sponsored retirement plan can offer true portability, staying with the worker even after they change jobs and eliminating the need to roll over funds. While conventional DC accounts are promoted for their portability, most plans require workers to withdraw account balances below a specified minimum when they leave an employer. This introduces significant risk of "leakage."[25] Currently, only 45 percent of workers who receive a distribution because of job change roll over the entire amount to an IRA or other qualified retirement account.[26] A portable plan that does not require rollovers will reduce leakage and ultimately increase retirement incomes for workers who would have otherwise spent part or all of their account balances rather than roll them over to another retirement account.

Meaningful retirement income security: guarantees and life annuities

Even after diligent saving and investing, workers in conventional DC plans face two major risks: market risk and longevity risk. The former is the risk of large market swings that adversely affect the value of retirement assets, particularly near retirement age when workers do not have time to recover. The latter is the risk of living longer than expected and running out of money, illustrated by the high rate of poverty among people over the age of 75—particularly among women, who tend to live several years longer on average than men but have much less assets.[27]

A publicly-sponsored plan can be designed to mitigate these risks by pooling risks across a large number of individuals and across time, with better outcomes—compared to commercial accounts—for the kinds of workers and firms in this market. Plan design and guarantees are too complex to be comprehensively addressed here, but the following provides key highlights.[28]

A large publicly-sponsored plan can help retiring workers to convert their assets into a secure lifetime monthly benefit—a life annuity—provided through the plan itself, or through a private insurer.[29] While research indicates that "most households would be better off annuitizing at least a portion of their assets at retirement if they were able to annuitize on actuarially fair terms,"[30] private market annuities are priced in a way that is actuarially unfair—that is, those who live to average life expectancy do not receive their money's worth in payments—due to adverse selection.[31] By pooling longevity risk across a much broader group of workers and providing a low-cost distribution channel (thereby reducing overall marketing costs), the plan can offer life annuities at significantly more attractive rates than would otherwise be available.[32]

In addition, a large pooled fund has the potential to offer a modest level of insurance against market risk with minimal risk to the insurer. The type and level of insurance possible depends on who provides the backstop and how the plan is structured. Optimal plan structure generates a steady inflow of funds—through automatic enrollment and default contribution rates—and pays out benefits over the long term rather than as lump sum distributions, preferably as a life annuity similar to a traditional pension. This design allows for a longer investment horizon and smoothing of returns across individuals—and to some extent across generations, though not to the same extent as a traditional DB pension.

In practical terms, the plan could be designed to resemble a cash balance plan—a hybrid pension that shares certain attributes with both DB and DC plans—in which workers receive fixed annual interest credits indexed to long-term Treasury rates. Alternatively, it could be a special type of DC plan in which workers invest in an annuity that offers a minimum rate of return plus additional interest credits when investments perform well. The former most likely requires that the state provide the guarantee in order to be implemented on a large scale, rather than on a voluntary basis by firms willing to take primary responsibility for funding the plan. The latter can be backed by private insurers and administered through a 401(k) or IRA platform, such as the TIAA Traditional Annuity offered by TIAA-CREF.[33] Other forms of private insurance might be possible, though any form of private insurance incurs additional costs and introduces the risk of the insurer going out of business.

Notably, several proposals for publicly-sponsored retirement plans converge along two levels of guaranteed benefits: a minimum nominal interest rate of 3 percent with the possibility for additional earnings depending on market conditions, or a target or flat guarantee of 2 to 3 percent real, i.e., after inflation, with some flexibility to adjust rates with market conditions.[34] This is because various stress tests indicate that these modest guarantees pose very little risk to the insurer of having to cover a shortfall.[35] One proposal simply proposes pooling risk among workers without an outside insurer into a fund structured to meet the target benefit, with flexibility to reduce benefits under extraordinarily adverse market conditions.[36]

Conclusion

For most people, retirement security is not about living in luxury, nor is it about just surviving; it is about having adequate resources to enjoy their families and interests after a lifetime of hard work while they are still in good enough health to do so. This is an integral part of the American Dream which traditional pensions, combined with Social Security, once made achievable for average working people. Unfortunately, declining access to employer-sponsored pensions and retirement accounts, inadequate assets, and a large share of the workforce on track to retire into serious economic hardship are cause for deep anxiety among workers about their ability to retire with dignity, or even to retire at all. Surveys and journalistic accounts abound with stories of people hoping they are physically able to "work until I die" because they have so few assets, and—especially among young workers—because they believe that Social Security will not be there for them.[37]

Such a bleak future does not have to come to pass. Social Security can be strengthened to ensure that it continues to protect American retirees from poverty for generations to come. Meanwhile, states like California can take leadership in building toward retirement security for all by establishing a publicly sponsored retirement system for private sector workers who lack access to an employer-sponsored plan. Given the needs of California workers, such a system should be thoughtfully designed to pool some of the risks that have been shifted onto vulnerable workers to the great detriment of families. Closing the private sector pension gap will not only help individual workers take responsibility for their retirement; it will improve the social and economic future of California.

Methodology

The author analyzed the Current Population Survey (CPS) March Supplement—also called the Annual Social and Economic Supplement—using microdata from the 2009, 2010, and 2011 survey years. The sample was extracted from the Integrated Public Use Microdata Sample (IPUMS) program at the University of Minnesota. Data from surveys dated 1995 through 2011 were analyzed for the time series in Figure 2. Three consecutive years of data were appended in order to yield a larger sample for demographic analysis. Cases in each three-year dataset were weighted using the March Supplement weight, divided by three. Each data point presented in this report represents an average of the total sample over the three years, rather than a mean of annual averages. This means that years of higher employment, which also have higher rates of retirement plan access, are weighted somewhat more heavily.

Survey questions were asked in March of the survey year, but most of the employment variables analyzed (e.g., private sector status, retirement plan coverage, earnings, full-time/part-time status, and firm size) concern employment during the previous calendar year. The sample is limited to individuals who were 25 to 64 years old at the time of the survey.

Private Sector Status. The CPS March Supplement survey specifies the class of worker in the longest held job in the previous year. The sample is limited to private sector wage and salary employees and private sector self-employed workers whose businesses are incorporated. The latter group is comprised mostly by small business owners. The sample does not include self-employed workers with unincorporated businesses.

Retirement Plan Coverage. The CPS March Supplement asks two questions on this topic. The first is whether the employer at the longest held job the previous year offered a pension or retirement plan other than Social Security to any of their employees. A "yes" answer is defined as having access for the purposes of this report, and serves as a crude proxy for eligibility. In reality, some workers who answered "yes" (or for whom a "yes" answer was provided by another household member) may not have been eligible for the plan, while others may have answered "no" because they did not know they were eligible. Those who answer "yes" to the first question are asked a follow-up question: whether the worker was included in the plan. Those who answered "yes" to the second question are counted as participating in a retirement plan. Participation rates are calculated as a percentage of the total working population, in contrast to takeup rates which are normally calculated as a percentage of the population that has access to a plan. (Note: IPUMS provides both sets of responses under one variable, but the author re-coded separate variables to conform to the above format.) Readers should note that the CPS yields slightly lower estimates of retirement plan coverage than employer surveys like the National Compensation Survey, which also have slightly different universes. However, the CPS is the only survey that allows for detailed demographic analysis of workers and retirement plan coverage at the state level.

Full-Time/Part-Time Status. Full-time is defined as having worked an average of 35 or more hours per week for any number of weeks during the previous year.

Earnings. Earnings are the sum of wage and salary, non-farm business, and farm income.

Firm Size. Firm size categories are for workers' primary employer during the previous year.

Race. For the purposes of this report, CPS racial categories were re-coded as follows: White (non-Hispanic and White, only one race), Black (non-Hispanic and Black/African American, only one race), Asian Pacific-Islander (non-Hispanic Asian or Pacific Islander, only one race), and Latino (Hispanic, one or more races). "Other" is a residual category that includes non-Hispanic Native Americans (American Indians and Alaskan Natives) who reported only one race and non-Hispanics of two or more races.

Endnotes

[1] A June 2011 Gallup poll found retirement to be the top worry (66%) among likely voters, representing a significant increase over the course of the past decade. Elizabeth Mendes, Jun. 15, 2011, "Lack of Retirement Funds Is Americans' Biggest Financial Worry," Gallup Wellbeing, http://www.gallup.com/poll/148058/lack-retirement-funds-americans-biggest-financial-worry.aspx.

[2] Sylvia A. Allegretto, Nari Rhee, Joelle Saad-Lessler, and Lauren Schmitz, Oct. 2011, "California Workers' Retirement Prospects," pp. 21–41 in Nari Rhee (ed.), *Meeting California's Retirement Security Challenge*, UC Berkeley Center for Labor Research and Education, Berkeley, CA, http://laborcenter.berkeley.edu/research/CAretirement_challenge_1011.pdf.

[3] Microdata for the CPS March Supplement Survey (aka Annual Social and Economic (ASEC) Supplement) extracted March 25, 2012 from Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, and Rebecca Vick, 2010, Integrated Public Use Microdata Series, Current Population Survey: Version 3.0. (Machine-readable database), University of Minnesota, Minneapolis, http://cps.ipums.org/cps/index.shtml.

[4] Allegretto et al., op cit., p. 33.

[5] Teresa Ghilarducci and Wei Sun, Jul. 2006, "How Defined Contribution Plans and 401(k)s Affect Employer Pension Costs," *Journal of Pension Economics and Finance*, v5n2, pp. 175–196.

[6] Author's calculation from CPS March, 2009–2011 appended; data from 2008–2010.

[7] Ibid. The remaining share of full-time workers reported working for more than one employer during the year, and it could not be determined whether they held multiple part-time jobs or back-to-back full-time jobs.

[8] On retirement insecurity among Latinos, see Nari Rhee, Feb. 2012, "Black and Latino Retirement (In)Security," UC Berkeley Center for Labor Research and Education, http://laborcenter.berkeley.edu/research/retirement_in_security2012.pdf. See also AARP Public Policy Institute, Sep. 2010, "Social Security: A Key Retirement Income Source for Minorities," Fact Sheet 201, AARP Public Policy Institute, Washington, D.C., p. 1., http://assets.aarp.org/rgcenter/ppi/econ-sec/fs201-economic.pdf.

[9] The statewide Elder Security Standard Index developed for California by the Insight Center for Community and Economic Development was $21,763 in 2009. See Steven P. Wallace, D. Imelda Padilla-Frausto, and Susan E. Smith, Sep. 2010, "Older Adults Need Twice the Federal Poverty Level to Make Ends Meet in California," Health Policy Research Brief, UCLA Center for Health Policy Research.

[10] Results retrieved by author on May 20, 2012 from the AARP Social Security Benefits Calculator, http://www.aarp.org/work/social-security/social-security-benefits-calculator/. The author has confirmed that the calculator yields similar results to a model that applies the Social Security benefit formula to typical low- and middle-wage earnings trajectories among California workers.

[11] The federal poverty threshold for people age 65 and older is slightly lower. However, general threshold for the 48 contiguous states is used here in order to be consistent with the income projections that follow.

[12] Dean Baker and David Rosnick, Oct. 2010, "The Impact of Income Distribution on the Length of Retirement," Issue Brief, Center for Economic and Policy Research, http://www.cepr.net/documents/publications/ss-2010-10.pdf.

[13] U.S. Social Security Administration, 2011, Annual Statistical Supplement, Table 6.A4, "Number and average monthly benefit for retired and disabled workers, by age and sex, 2010," http://www.ssa.gov/policy/docs/statcomps/supplement/2011/6a.html#table6.a4.

[14] There is growing attention on the regressive impact of across-the-board increases on the full Social Security retirement age in the context of growing inequality in life expectancy. The Center for Economic and Policy Research has proposed that the bottom 50 percent of earners should be eligible for full Social Security benefits at age 65, with stepped increases in retirement age for higher earners, in order to ensure that they receive the same number of years of benefits on average. See David Rosnick and Dean Baker, Apr. 2012, "The Impact on Inequality of Raising the Social Security Retirement Age," Center for Economic and Policy Research, Washington, D.C., http://www.cepr.net/documents/publications/ss-2012-04.pdf.

[15] For an illustration of current retiree income sources by income group, see Allegretto et al., op cit., p. 23, Table 2.1.

[16] Allegretto et al., op cit., pp. 33–40.

[17] For an assessment of Auto-IRAs see Michael Calabrese, Oct. 2011, "Facing Up to the Retirement Savings Deficit: From 401(k)s to Universal and Automatic Accounts," New America Foundation Asset Building Program, http://assets.newamerica.net/sites/newamerica.net/files/policydocs/calabrese_retirement_final_11.1.11.pdf.

[18] Jacob Hacker, 2011, "Restoring Retirement Security: The Market Crisis, the Great Risk Shift, and the Challenge for Our Nation," *Elder Law Journal*, v19n1.

[19] See for instance Teresa Ghilarducci, 2011, "High Performance Pensions for All Californians," pp. 94–112 in Rhee (ed.), op cit.

[20] For example, a study of K-12 teacher 403(b) fees found that public school teachers in California, which has an open system of vendor access, pay substantially higher fees than teachers in states where the state limits access and controls the quality of 403(b) account servicers. Robert Clark, Nov. 2010, "Who's Watching the Door? How Improving 403(b) Administrative Oversight Can Improve Educators' Retirement Outcomes," TIAA-CREF Institute, Washington, D.C., http://www.tiaa-crefinstitute.org/institute/research/trends_issues/ti_403b1110.pdf.

[21] This is illustrated by the efficiencies of DB pensions compared to 401(k) individual accounts. See Beth Almeida and William B. Fornia, Aug. 2008, "A Better Bang for the Buck: The Economic Efficiencies of Pensions," National Institute for Retirement Security, Washington, D.C.

[22] See Jack VanDerhei and Lori Lucas, 2010, "The Impact of Auto-enrollment and Automatic Contribution Escalation on Retirement Income Adequacy," Issue Brief No. 349, Employee Benefit Research Institute, Washington, D.C., http://www.ebri.org/pdf/briefspdf/EBRI_IB_011-2010_No349_EBRI-DCIIA.pdf.

[23] For instance, most forms of state involvement in retirement plans regulated by ERISA are pre-empted. States may press for regulatory and statutory changes that give them increased latitude.

[24] Michael S. Barr and Jane K. Dokko, Dec. 2007, "Paying to Save: Tax Withholding and Asset Allocation Among Low- and Moderate-Income Taxpayers," Working Paper 2008–11, Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C., http://www.federalreserve.gov/pubs/feds/2008/200811/200811pap.pdf.

[25] Rob Austin et al., 2011, "Leakage of Participants' DC Assets: How Loans, Withdrawals, and Cashouts are Eroding Retirement Income," Aon Hewitt, Chicago, http://www.aon.com/attachments/thought-leadership/survey_asset_leakage.pdf.

[26] Patrick Purcell, Jan. 2009, "Pension Issues: Lump-Sum Distributions and Retirement Income Security," Congressional Research Service, Washington, D.C.

[27] Alexandra Cawthorne, Oct. 2008, "Elder Poverty: The Challenge Before Us," Center for American Progress, Washington, D.C., http://www.americanprogress.org/issues/2008/07/pdf/elderly_poverty.pdf.

[28] For an outline of plan design issues, including guarantees, in the California context, see Nari Rhee, Feb. 2012, "Meeting California's Retirement Security Challenge through a State Sponsored Retirement Plan: Policy Design Challenges and Options," White paper, UC Berkeley Center for Labor Research and Education, Berkeley, CA, http://laborcenter.berkeley.edu/research/state_sponsored_retirement_plan_2012.pdf.

[29] See Anthony Webb, 2011, "Designing a More Attractive Annuitization Option: Problems and Solutions," pp. 76–93 in Rhee (ed.), op cit.

[30] Webb, op cit., p. 78.

[31] Jeffrey Brown, Oct. 2007, "Rational and Behavioral Perspectives on the Role of Annuities in Retirement Planning," Working Paper No. 13537, National Bureau of Economic Research, Cambridge, MA, p. 11–12. Brown proposes that in addition to actuarial unfairness, behavioral biases limit voluntary annuitization.

[32] Webb, op cit.

[33] See John H. Biggs, Feb. 2010, "How TIAA-CREF Funded Plans Differ from a Typical 401(k) Plan," *Trends and Issues*, TIAA-CREF Institute, New York, http://www.tiaacrefinstitute.org/ucm/groups/content/@ap_ucm_p_tcp_docs/documents/document/tiaa02029460.pdf.

[34] Ghilarducci (op cit.) has proposed a California Guaranteed Retirement Account which would offer an annual interest credit of 3 percent after inflation. The Secure Choice Pension proposal from the National Council of Public Employee Retirement Systems (NCPERS) is a modified cash balance plan with a target nominal interest credit of 5 percent on contributions and a minimum guaranteed nominal interest credit of 3 percent. Hank Kim, 2011, "The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector," National Conference on Public Employee Retirement Systems, Washington, D.C., http://www.sdcera.org/PDF/Secure_Choice.pdf.

[35] See David Stubbs, 2010, "What Real Rate of Return Could a Guaranteed Retirement Account Credibly and Safely Offer?", Working Paper 2010-4, Schwartz Center for Economic Policy Analysis (SCEPA), New School for Social Research Department of Economics, New York. See also Kim (op cit.). It is also noteworthy that the TIAA Traditional Annuity's minimum guarantee for incoming contributions in the context of historical lows in long-term treasury rates is 3 percent.

[36] Karen Ferguson, nd, "Retirement Security Funds," Pension Rights Center, Washington, D.C. Retrieved on May 21, 2012 from http://www.pensionrights.org/what-we-do/events/re-imagining-pensions/retirement-security-funds.

[37] A 2010 Gallup Poll found that 60 percent of workers believe that Social Security will not be able to pay them a benefit when they retire. The rate was 76 percent among people age 18 to 34. A 2007 Bankrate.com poll found that nearly one out of five individuals expects to work until they die. Frank Newport, Jul. 20, 2010, "Six in 10 Workers Hold No Hope of Receiving Social Security," Gallup Politics, http://www.gallup.com/poll/141449/six-workers-hold-no-hope-receiving-social-security.aspx; Leslie H. Geary, 2007, "Work until you die: A new retirement goal," Bankrate.com, http://www.bankrate.com/finance/financial-literacy/work-until-you-die-a-new-retirement-goal-1.aspx.

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